Play 3

Identifying Revenue Streams

Sports Event Management and Marketing Playbook

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Identifying Revenue Streams: Overview

- Sports event revenue streams come from many sources, depending on the type of event
- Revenue objectives will vary; detailed event planning will identify bottom line needs
- Event budget provides an outline of expected costs and provides guidance in planning
- As with expenses, flexibility to changes in the plan and budget is key

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Key Terms

- Net income
- Gross potential: # tickets available at price break x price you wish to set for each break
- Value-in-kind (VIK): providing product or service instead of cash from sponsors/partners
- Per cap: expected merchandise revenue per person at the event
- Spoilage: merchandise that will not be successfully resold
- Budget
- Forecast

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Typical Sports Event Revenue Streams

- Ticket sales
- Sponsorship and advertising
- Merchandise
- Concessions/food and beverage
- Broadcasting
- Participation fees
- Grants and donations

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Ticket Sales

- The lifeblood of most sports event revenue
  - Up to 50% of revenue or more
- Ticket sales affect the potential of many other revenue streams (e.g., concessions and sponsorship)
- Calculating gross potential provides a reasonable estimate of ticketing revenue
  - Gross potential should not be final number used in revenue budget unless even has proven and consistent track record
  - 75-80% if a good amount to forecast
  - If you feel you cannot reach 75%, venue may be too large for your event
- Price breaks: clear and separated sections
  - Determined by value provided by seating area (50 yd line, lower deck, midcourt, etc.)
  - How many? Do you need to provide premium level? What about SRO?

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Calculating Gross Potential

Seating Area	Inventory	Ticket Price	Potential
Front Row	150	$50	$7,500
Lower Seating, Mid Arena	750	$35	$26,250
Lower Seating, End Zone	500	$25	$12,500
Upper Level, Mid Arena	500	$25	$12,500
Upper Level, End Zone	350	$17.50	$6,125
Standing Room	100	$10	$1,000
GROSS POTENTIAL	2,350		$65,875

© John Wiley & Sons, Inc.

Unless the event has a proven track record of selling out, a good rule of thumb is to budget for *80% of gross potential*. In the above example, this would mean selling a minimum of 1,880 tickets (2,350 x 0.80) for a projected $52,700 ($65,875 x 0.80).

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Ticket Pricing Factors

- Event history: proven track record?
  - How well have tickets sold in the past?
  - Is your event established or new?
- Event perception: reputation and demand
  - Will fans pay a premium?
- Event comparison: prices at similar events
  - Do their tickets sell at those prices?
  - Is your event perceived at the same level?
- Event market environment: economic considerations
  - Are their other events in the area that will compete for the same audience?
  - Does the local economy and socioeconomics support your ticket prices?

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Ticket Pricing Factors

- Event specifications: sport and level (pro vs. college, etc.)

- Event venue selection: capacity, age of venue, etc.
  - Is your venue sufficiently sized to create a perceived demand for tickets?
- Event revenue
  - Will the prices you select help the event meet its revenue requirements?
    - Too high = not enough tickets sold
    - Too low = not enough revenue

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Sponsorship and Advertising

- Sponsorship helps lower the price of tickets and need for relying on other revenue streams
- The amount and value of sponsorship and advertising is directly related to the size and reach of the event
  - Mature, proven events can produce very significant revenues
  - Early events can make mistake by over-estimating possible revenue from sponsorships
  - Not the solution to every question of “where is the money coming from”
  - Sponsorship amount must match value that sponsor receives
- Value-in-kind or barter sponsorship may provide the event with goods/services in lieu of cash – esp. newer events
  - Can eliminate expenses vs. providing cash
- Advertising in the venue can create additional revenue, but must not conflict with other sponsor deals

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Merchandise

- Profit margins on merchandise must take into account the event organizer's design and purchasing costs
- Some amount of spoilage, or unsold goods, should be anticipated
- Larger events may license merchandise to shift costs associated with production
  - Have more leverage in negotiations with outside merchandise companies (events may be able to take 10-25% in license fees)
- Small or newer events may need to get creative
  - Includes sponsorships on merchandise
  - Consignment
- Per capita estimates (per cap) help to accurately predict budgeting figures
  - Estimates depend on what type of crowd you expect (Disney on Ice)

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Merchandise Revenue Calculation

A. "Per Cap" Estimation	$ 0.75
B. Number of Spectators Expected	2,500
C. Projected Gross Revenue (A x B)	$ 1,875
D. Cost of Merchandise Sold	$ 950
E. Budgeted Net Merchandise Revenue (C – D)	**$ 925**

© John Wiley & Sons, Inc.

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Concessions

- Concession revenues consists of the net income from food and beverage sales
- Some event venues will limit an event organizer's ability to derive revenue from concessions
  - Require certain caterers, providers, etc.
- Attempt to negotiate a 20-40% share of concession revenues, after expenses
  - Higher share of concessions likely results in higher prices for fans
  - As in sponsorships, larger/more established events have more leverage
  - Smaller/newer events may completely contract out concessions at 0% share (similar to VIK)
- It is important to take into account concession pricing and event audience to maximize sales

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Broadcasting

- Only larger, established events can rely on broadcasting as a substantial source of revenue
- Selling broadcasting rights to networks can be highly profitable
- A time-buy allows an event organizer to purchase broadcasting time for an event, usually at high expense and high risk
- Web broadcasts provide a cheaper alternative to purchasing airtime on television
  - Much more common in small college athletics
  - Some provide revenues for schools; others just provide the service at a cost to schools (Flo Sports Ex.)

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Participation Fees

- Many grassroots events charge registration fees to players or teams participating as opposed to admission fees
  - Trends toward charging both (as well as recruiters)
- Determining participation fees is a similar process to setting ticket prices
- Establish what each participant receives with his/her fee and be sure to factor that into the price
  - Sometimes it is just the organization of the tournament
  - Other may include housing, meals, etc.

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Grants and Donations

- Mostly for events staged for a not-for-profit or community well-being
  - Exception may be college athletics which use donations to help offset costs/budgets
- Many sports foundations offer grants for events that provide economic impact or meet specific criteria
- The process for being awarded a grant may be rigorous, depending on the type and organization or local municipality granting the funds
  - May depend on the location of your event; might affect choice of location
- Donations may also be solicited from fans, event attendees or businesses

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Balancing the Books

- Revenue projections should meet predetermined expectations and/or exceed budgeted expenses
- If revenues fall short, reexamine assumptions such as ticket prices and per cap and adjust
  - Reforecasts are very common in event budgeting
- Make sure to account for taxes, fees and possible contingencies that arise
  - Contingencies will almost always arise; make sure there is a number that can meet any that arise
- Be realistic in the reassessments of revenue streams and costs
  - Changing forecasts do not actually change the expense; make sure revisions are actually realistic, and not just changing the numbers to make the budget look better
- Reforecast budgets by adding another line with revenue adjustments and cost deductions instead of making changes to original forecasts

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Reforecasting

- New information on costs may require adjustment to forecasts
  - As costs begin to be incurred you may find you are on track to spend more or less than forecasted
- Instead of changing the original budget lines, extend your spreadsheet to include more columns
  - See example on next slide

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Reforecasting

Expenses	Budget	Actual	Forecast	Variance	Notes
Event Operations					
Temporary staff	15,000	7,500	15,000	0	
Temporary staff expenses	4,500	2,238	4,500	0	
Volunteer staff expenses	3,500	0	3,500	0	
Staff travel expenses	1,000	985	1,500	(500)	
Staff meals or per diem	2,000	540	1,500	500	
Staff wardrobe/uniforms	2,500	1,200	2,500	0	
Site surveys/planning trips	1,500	450	1,000	500	
Pre-event planning meetings	500	200	500	0	
Event location office rent	5,000	2,500	5,000	0	
Event location office equipment	1,000	1,400	3,000	(2,000)	Higher copier costs
Event location office supplies	750	500	750	0	
SUBTOTAL	**37,250**	**17,513**	**38,750**	**(1,500)**	

Figure 3.7 Sample Budget Reforecast (Note: Budget codes should be added to every budget and reforecast for ease of bookkeeping and analysis. See Appendices 1 and 2.)

Summary

- Identify a revenue objective by comparing anticipated expenses to the desired bottom line
- Revenue streams for each event will differ depending on factors including event type, location, time and reach
- Be conservative in your revenue projections
- Review and adjust revenue assumptions (and expense figures) to reach determined budget goals
- Maximize potential revenue by thinking creatively about your event's possible streams

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Assignment 3/Discussion

- For the same college tournament you chose for Assignment 2, create a revenue forecast for revenue streams covered in this chapter.
  - Consider how your selected sports will play a factor in each revenue streams' potential.
  - Make sure how you described your event in Assignment 2 matches with the revenue you forecast.

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.

Assignment 3

- Rubric:
  - Include revenue forecasts for the following streams:
    - Ticket Sales (includes price breaks and prices)
    - Sponsorship and Advertising
    - Merchandise
    - Concessions
    - Broadcasting
    - Participation Fees
    - Grants and Donations
  - Give a detailed explanation on how you reached each forecast
  - Compare your total forecasted revenue with expected costs from Assignment 2
  - If there will be no revenue from a stream, explain why
  - Make sure the revenue streams match your event

Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.